

**THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON,
ARIZONA**
**Minutes of the Regular Meeting
of the Board of Directors**

January 14, 2010

At the
Ward VI Council Office Community Meeting Room
3202 East First Street
Tucson, Arizona 85716

Present:

Board Members	Marilyn Robinson Christopher Carroll Pam Sutherland Maggie Amado-Tellez Randi Dorman Adam Weinstein (10:20 a.m.)
Staff	Gary Molenda, Business Development Finance Corporation Karen J. Valdez, Business Development Finance Corporation Charles W. Lotzar, Lotzar Law Firm, P.C.
Guests	Cheryl Berry, Pueblo Parking Systems, LLC Cary Neal, Pueblo Parking Systems, LLC Scott Riffle, George K. Baum & Company
Absent	Evelia Martinez Gary Bachman

The Regular Meeting of the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona (the “**Authority**”) was held on **January 14, 2010**, at the Ward VI Council Office, 3202 East First Street, Tucson, Arizona. All Authority’s Board Members and the general public were duly notified of the meeting. C. Lotzar explained that Arizona’s Open Meeting Laws allow for members of the Authority’s Board of Directors and legal counsel to appear and participate in the meeting telephonically so long as all participants in the meeting can hear and be heard.

ITEM	ACTION TAKEN/TO BE TAKEN
I. Call to Order.	The meeting was called to order at 10:05 a.m. with a quorum present.
II. Request for resolution to approve the minutes of the Board of Director’s Special Meetings of December 4, 2009 and December 11, 2009.	A MOTION was made and seconded (R. Dorman / P. Sutherland) to approve the December 4, 2009 and December 11, 2009 meeting minutes as presented. Approved 5-0.
III. Request for resolution to approve the payment of invoices and the notification of items to be paid on the Authority’s behalf by third parties.	A MOTION was made and seconded (C. Carroll / M. Amado-Tellez) to approve payment of

<p>K. Valdez presented items to be paid on the Authority's behalf for the month of December 2009. P. Sutherland expressed appreciation to Mr. Lotzar noting the reduction in monthly legal fees and would like to see legal fees at no more than \$5,000 per month.</p>	<p>invoices as presented. Approved 5-0.</p>
<p>IV. Request for resolution approving the Authority's audited financial statements for the fiscal year ended June 30, 2009 as prepared by the Authority's auditor.</p> <p>G. Molenda reviewed the audited financials beginning with the auditors report which states that the financial statements present fairly, in all material respects, the financial position of the business type activities of the Authority, as of June 30, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. It was noted that there is one exception and that is the Auditor's do not attempt to confirm the amount of the outstanding bond obligation (conduit debt) by direct correspondence with the bond trustees. G. Molenda stated that the Authority has no obligation to repay these bonds nor do they have responsibility for them; they are not assets or liabilities of the Authority. The Management's Discussion and Analysis were reviewed. It was noted that net assets increased 40.7% from the prior year which was due to 1) the Authority's gain from settlement on 2 limited partnership interests and related advances to the limited partnership, 2) refunding fees received on the early redemption of housing bond issues and 3) the purchase in-lieu of redemption of other housing bond issues.</p> <p>P. Sutherland expressed concerns on cost of operating expenses in 2008 which created a deficit for the fiscal year and 2009 where expenses were almost equivalent to operating revenues. Ms. Sutherland expressed concern that the purpose of the Authority is not being fulfilled but rather operating to keep staff working.</p> <p>G. Molenda stated that there was significant effort made in winding up the partnerships which was a 1 time non recurring event that skewed the overall cost structure. The positive impact from this event is the change in cash position that changed the Authority's balance sheet significantly. The Authority has increased its cash flow by receiving a 100% of the parking lots net operating revenues versus 50% previously received. There has been some benefit received but clearly with some incremental cost of accomplishing that task.</p> <p>M. Robinson added that the prior Authority Board at that time acknowledge that it was going to be an expensive endeavor but that it was something that needed to be done.</p> <p>G. Molenda stated that in adopting a budget for the Authority, there is a process of identifying goals and objectives and what resources are necessary to accomplish these goals.</p> <p>P. Sutherland stated that going forward she would like to see an effort made to control expenses.</p>	<p>A MOTION was made and seconded (M. Amado-Tellez / R. Dorman) to approve the audited financial statements for the fiscal year ended June 30, 2009 as prepared by the Authority's auditor. Approved 5-0.</p>
<p>V. Request for resolution approving the amendment to the Authority's Record Retention and Destruction Policy.</p> <p>C. Lotzar presented this item stating that the resolutions is clearing up some ambiguity that the Authority will keep copies of all transcripts in electronic format while keeping the power to destroy documents. Documents will be destroyed 7 years after bonds are paid off.</p>	<p>A MOTION was made and seconded (P. Sutherland / C. Carroll) to approve amendments to the Authority's Record Retention and Destruction Policy. Approved 6-0.</p>
<p>VI. Status report, discussion and request for resolution regarding operations of the Authority's parking lots and approval of the proposed 2010 budget for (A) Block 175 and (B) Stone/Council parking lots.</p> <p>Cheryl Berry, Senior Property Manager with Pueblo Parking Systems, L.L.C. ("PPS")</p>	<p>A MOTION was made and seconded (C. Carroll / A. Weinstein) to approve the proposed 2010 Budget for Block 175 and Stone/Council parking</p>

<p>introduced Cary Neal, PPS Property Manager, who will be assuming responsibility of day to day oversight for both Block 175 and Stone/Council parking lots.</p> <p>Beginning with Block 175 and following with Stone/Council parking lots, C. Berry reviewed income and expenses for the month ending December 2009. Ms. Berry noted that due to lack of previous rental/income history, monthly rents at Block 175 are over what was anticipated and daily receipts are under projections; adjustments have been made to the 2010 budget projections based on 2009 activity. Ms. Berry reviewed the proposed 2010 budget for both Block 175 and Stone/Council parking lots. PPS is suggesting expenses this year to cover the cost of crack seal repair and expenses for landscaping in order to make wells around existing trees. C. Berry mentioned having a reserve account that would be used for re-paving of the lots, however, if the Authority is not planning on holding the lots for an extended period of time, it may not be necessary.</p> <p>C. Berry noted that PPS does not currently pay the property taxes on the lots but would be happy to do so and would adjust the budgets accordingly.</p> <p>The lighting and heights of the pole arms were discussed. A. Weinstein stated that the 25' height is acceptable to which C. Carroll concurred. Ms. Berry was given an “okay to proceed” with the dawn to dusk program. The plan is to put in 2 poles, each with 1 arm, at each end of Block 175 to shine down on the honor boxes.</p> <p>Ms. Berry stated that expense for the lighting and signage will be added to the 2010 proposed budget as a “special project.” It was noted that it will take 4 to 6 weeks for installation of the lights once the agreements/contracts have been executed and submitted. Additional signage will be approximately \$500.</p> <p>A. Weinstein and C. Carroll will meet with C. Berry to discuss.</p>	<p>lots with adjustments noted regarding expense for “special projects”. Approved 6-0.</p>
<p>VII. Status report concerning results of the allocation of private activity bonding authority lottery conducted by the Arizona Department of Commerce on or about January 2, 2010.</p> <p>C. Lotzar stated that on January 2, 2010, there were no requests for Private Activity Bonding Authority (“PAB”) allocations for 2010. Mr. Lotzar stated that in 2009, there was a mere \$18,400,000 in PAB allocations for the entire State of Arizona. He noted that there is plenty of PAB allocation available, all that is needed is confident borrowers. There is \$585,000,000 available today. Mr. Lotzar stated that the Authority’s reservation for 2010 Single Family allocation was submitted today. There is no need for action on this until June 2010, at which time the need for allocation will be determined by how well the current 2009 Single Family Mortgage Revenue Bond (“MRB”) program originates. Mr. Lotzar reviewed the 2009 Allocation of Private Activity Bond Volume Cap to Date (“report”) prepared by Arizona Department of Commerce. The report lists: category, volume cap, allocations, and remaining volume cap. Also listed are projects funded to date in 2009, all of which are small issue projects. It was noted that the reason the Authority’s 2009 Single Family Mortgage Revenue Bond Program is not listed is because it was issued as a taxable deal that will later be tax exempt as it comes out of escrow.</p> <p>G. Molenda asked Scott Riffle to comment on market forecast. S. Riffle stated that mortgage rates have spiked since the MRB program came out and market rate is now at 5.25% versus the MRB program with a rate of 4.55%. Mr. Riffle stated that George K. Baum, & Co. (“GKB”) remains very positive as there are positive economic signs. With regard to PAB there is a lot more risk involved to any type of loan and commitment particularly on the multifamily side. Mr. Riffle stated that it is more prudent right now to go to a bank for financing rather than accessing the Bond market noting that if an investor wants to buy your bonds they will extract a serious cost of money particularly on a tax-exempt basis. The ratings for many years now are being looked at as not necessarily as accurate as they could have been with rating agencies under a lot of pressure to look at</p>	

<p>things a lot closer. Where money was free in 2006 and 2007, now there is an extraordinary risk premium required.</p> <p>There was discussion on the MRB program with regard to closing of the bonds, lender training, and progress to date.</p>	
<p>VIII. Status report by the Authority’s Advisor regarding the Authority’s collection of Administration Fees.</p> <p>K. Valdez stated that borrowers of the Private Activity Bonds are obligated to pay a proportionate share of the Authority’s administrative expenses on an annual basis pursuant to a fee schedule for non-profit and for-profit borrowers. The annual fee is based on the outstanding principal amount of the Bonds and is payable by the borrower or trustee as determined under the financing agreement. The Authority’s bond portfolio issuer fees are current with the exception of 1 project. It was determined that Rillito Village Apartment Project underpaid their administration fee in years 2006, 2007, and 2008. K. Valdez stated that she is working with the Trustee who in turn is working with the borrower who has been making monthly payments in order to pay off the balance due. It was noted that the underpayment for both 2006 and 2007 will be paid with the 2010 issuer fee due in April. This will leave a balance due for underpayment of year 2008.</p>	
<p>IX. Status report by the Authority’s Advisor concerning parity tests associated with the various outstanding single family mortgage revenue bond programs and request for resolution with respect thereto.</p> <p>S. Riffle, Sr. Vice President of George K. Baum & Co. (“GKB”) stated that parity testing is a quality control measure. Mr. Riffle reviewed a Preliminary Assets/Liability Comparison After Debt Service on January 1, 2010 Trustee Balances (“report”) prepared by GKB. Mr. Riffle concentrated on Coverage and Excess Assets noting that this is not money that can be spent but is money that is required to maintain the ratings on the bonds which is a covenant in the bond documents. He noted that all ratings have been confirmed and maintained so bond investors are receiving payments as well as the AAA ratings that they expected when they purchased the bonds. In this environment, this is important because when accessing the capital market in the future investors will remember bonds previously purchased performed as expected. Mr. Riffle stated that the transactions are performing well and consistent with the original assumptions that were put in the offering documents. Mr. Riffle stated that the 2001A and the 2000A & B have paid off and payment was received by the Authority within this past year for these 2 transactions through roll-ups. The 2008A is the transaction closest to parity at 100%. The reason is that this is the youngest of the transactions noting that the mortgage rate is always above the bond rate so it takes time for excess to grow. The 2007A and 2006A & B are over collateralized which is a function of 2nd mortgage loans issued in conjunction with these transactions. Moody’s requires a great deal of over collateralization in these deals as protection against defaults and risks associated with second loans. What is important to note is that the excess assets will eventually become available to the Authority to be used for any lawful purpose. It was noted that the Guaranteed Investment Contracts (“GICs”) are solid on these transactions and interest earned is added to the excess assets and remain in an account with the Trustee. Mr. Riffle stated that any time the Trustee has excess assets above the parity levels to maintain the AAA rating the Trustee will call bonds which is how bonds are eventually paid down. Mr. Riffle stated that the issuer fees are still being paid on transactions listed in the report noting that the issuer fees are independent of the excess assets.</p> <p>P. Sutherland asked Mr. Riffle to provide feedback to the Board if Lenders are unable to place mortgages due to insufficient down payment assistance.</p>	
<p>X. Staff Reports</p> <p>➤ Loan Programs & Financial Tools Matrix update</p>	

1. **BDFC Economic Development Loan Programs**
2. **Liberty Bonds – NYC Liberty Bond Program**
3. **EDA Grant Programs**

G. Molenda reviewed additional information added to the Financial Tools Matrix (“**Matrix**”). P. Sutherland noted that the Empowerment Zone credits/bonds (“**EZ**”) that was due to expire on **December 31, 2009** has been extended. There was some question on whether or not the EZ tax credits have been used by businesses to which G. Molenda stated that the program was extensively marketed and M. Robinson stated that the City of Tucson is unable to verify business usage as the information is unattainable from the IRS.

P. Sutherland stated that with regard to the Matrix, she would like to see cost estimates for each of items **1, 2, and 3**.

G. Molenda stated that per information received earlier from Mr. Riffle revenue bonds are not affordable in current market.

G. Molenda stated that taxable bonds and tax-exempt bonds are both transactional financing. There was further discussion regarding what type of rate might be associated with taxable and tax-exempt bonds on a possible **\$2,000,000** project enhanced with a letter of credit to which S. Riffle replied that GKB would need to run the numbers but also noted that a credit enhancement these days is very difficult to obtain particularly if it is a variable rate bond as letters of credit are incredibly expensive particularly on a small project.

Mr. Riffle stated if it is a very strong project, it would be approximately **200 to 250** basis points with maybe **150** basis points on a letter of credit. Mr. Riffle stated that investors focus on the credit worthiness of the project and fluctuations could be as much as **50** basis points within a particular rating on the bonds.

C. Lotzar stated that what will be looked at is the repayment strength of the borrower and debt service coverage. In today’s credit market this is not designed to help the borrower of last resort, but rather designed to help the borrower that’s credit worthy who could go to a commercial bank for financing.

P. Sutherland stated that she is looking for a way the Authority could ease up the commercial financing crisis that is occurring.

G. Molenda stated that bond financing is transactional and therefore a blind pool is not possible. It was noted that any further discussion would be theoretical.

A. Weinstein suggested that **3 or 4** specific projects be identified for further analysis at the upcoming Board Retreat.

G. Molenda stated that a meeting was held with National Bank of Arizona regarding **2** possibilities, **1)** a revolving credit facility whereby the Authority would borrow funds and relend for smaller projects, or **2)** the Authority would be the subordinated lender similar to the **SBA 504** loan model. National Bank of Arizona is researching these options and also verifying whether this would be CRA eligible. It was noted that all Lenders are under severe pressure from regulators to maintain capital and make good loans.

P. Sutherland asked S. Riffle to provide reports to the Authority on when it would be appropriate to look at certain bond programs.

P. Sutherland stated that it appears as though the City of Tucson (“**City**”) is going forward with accessing funds for the **HUD section 108** loan guarantee program (“**108**”).

Loan”) which will translate into approximately **\$30,000,000** in low interest loans. Funds would flow from HUD to the City to the applicant. In most other communities who have adopted this program, it is driven by the applicant.

P. Sutherland stated that it would be a good idea for the Authority to submit an application for a **108 Loan** stating that the Authority could borrow the funds at **1%** to **2%** to create a pool to be used for down payment assistance and commercial financing as uses of the **108 loan** is quite broad. Ms. Sutherland is requesting staff to prepare an application for a **108 loan**. Ms. Sutherland stated that the amount the City could access is **\$30,000,000** which is **5** times its CDBG allocation, therefore, she is requesting that the Authority apply to the City for a **\$5,000,000 108 Loan**.

G. Molenda questioned whether this has been adopted by the City to which P. Sutherland stated that the City is about to adopt it but feels that this process needs to be driven by applicants. G. Molenda stated that this would be a letter request as the City has yet to adopt the program or design a formal application process. It was suggested that a letter be drafted by G. Molenda to the City Manager as a place holder.

➤ **Board Retreat and Advisory Committee scheduling**

K. Valdez stated that she is working with the Lodge on the Desert to schedule a date and time for the Board Retreat and asked if a combined regular meeting / Retreat on **February 11, 2010** would work with the Board members schedules. The Board reviewed their schedules and concurred that **Thursday, March 4, 2010** would work for most. M. Robinson asked that Scott Riffle attend if he is able. Information will be sent out to the Board as soon as a date and time is finalized.

With regard to Advisory Committee scheduling, P. Sutherland stated that she would like these meetings to be held prior to the retreat and it was noted that there is no need for staff to attend these meetings. M. Robinson requested that notification of meeting date, time, and agenda be submitted to K. Valdez as all meetings need to be posted per open meeting law.

C. Lotzar stated that he will re-circulate a memorandum regarding Advisory Committees as they pertain to open meeting law.

It was noted that M. Robinson will be added to the Warehouse Arts District Advisory Committee.

➤ **Outstanding Single Family Programs**

K. Valdez reviewed the **2008** and **2007** Mortgage Credit Certificate Program (“**MCC**”) information to date as provided in the Board packet. With regard to the **2008 MCC** Program, it was noted that **20** MCCs have been issued this fiscal year with a total of **30** to date.

➤ **City of Tucson requirements on membership on the Authority’s Board of Directors and amendment to the City Ordinance related thereto**

C. Lotzar stated that the Authority had a situation where per a City Ordinance (“**Ordinance**”), IDA Board members were forbidden to serve more than **1** term (**6 years**). There are a number of current members who would violate that rule and rather than being in a position where a clean opinion could not be given the City has amended the Ordinance to exempt the Authority so that members can be re-appointed.

XI. President’s Report

<p>➤ Brief Summary of current events, including items brought to the President's attention or matters that required handling by the President since the last meeting.</p> <p>M. Robinson stated that the Arizona Housing Alliance seminar will take place on Friday, February 19, 2010 from 9:30 AM to 1:30 PM. A reception will be held on the evening of Thursday, February 18, 2010 from 5:00 PM to 7:00 PM, in Phoenix. The location has not yet been determined but the Hyatt Hotel downtown Phoenix will most likely be the location to stay at if planning on attending both days. This seminar is being organized by the Arizona Housing Alliance as a way of letting others know what the Authority can do. They are looking to the Authority for sponsorship of this event otherwise there will be a charge to attend. It may be as much as \$75 per person for attendance. It was the consensus of the Authority to authorize M. Robinson to sponsor \$1,000 for Authority and staff to attend.</p> <p>M. Robinson stated that the training budget was increase from \$5,000 to \$10,000. NALHFA will be holding a Spring conference in Washington, D.C., in March, 2010. As soon as this information is received it will be distributed to the Authority.</p> <p>M. Robinson stated that there has been no response to the proposal to El Charro with regard to Block 175. It was noted that in the Business section of the Monday, January 11, 2010 Arizona Daily Star, there was an article stating that as parking rates go, Tucson is on the less expensive side.</p> <p>M. Robinson reported that with regard to 450 N. Main Avenue, ADOT's 30 day period will end on January 25, 2010.</p>	
<p>XII. Call to the Public: This is the time for the public to comment. Members of the Authority's Board of Directors may not discuss items that are not specifically identified on the Agenda. Therefore, pursuant to Arizona Revised Statutes Section 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism or scheduling the matter for further consideration and decision at a later date.</p> <p>There was no one present in the audience who wished to address the Authority.</p>	
<p>XIII. Adjourn Regular Meeting.</p>	<p>A MOTION was made and seconded (R. Dorman / A. Weinstein) to adjourn the meeting. Approved 6-0 – meeting adjourned at 12:05 p.m.</p>

Submitted by:

Approved by:

Karen J. Valdez
Business Development Finance Corporation

Marilyn Robinson, President
The Industrial Development Authority of the
City of Tucson, Arizona